



MID-YEAR POWERHOUSE POLL

AUGUST 2022

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I'm very excited to announce that Berkadia's 2022 Mid-Year Powerhouse Poll is here! This semi-annual insight we receive from our investment sales advisors and mortgage bankers is more critical than ever as we support our clients while they navigate the ever-changing commercial real estate (CRE) landscape. The poll provides invaluable information to our clients as they set investment priorities for the months ahead and grapple with uncertainty stemming from rising interest rates and persistent inflation. After a noteworthy first half of 2022, this input from our experienced professionals remains indispensable, bringing together a comprehensive outlook for the remainder of the year.

In the mid-year poll, we asked our producers how rising interest rates, persisting inflation and the potential of an impending recession are affecting the CRE industry. We also focused on new areas of interest—asking our producers about regional specific trends, renter demographics and technology and innovation—that are shaping the future of investment. The CRE industry is continually advancing, and our professionals are excited and prepared for what the remainder of 2022 holds, even if it comes with some uncertainty. We have weathered these storms before and will continue to help clients manage their portfolios and align their investment strategies to the shifting market.

While we remain cautiously optimistic, we are focused on these key findings in the multifamily market:

- Despite market uncertainty, multifamily demand continues to outpace supply
- Trends related to multifamily demand and supply differ regionally and by renter demographic
- Industry advancements in technology are accelerating the production process
- Institutional investors are seeking long-term investments and prioritizing ESG to combat uncertain economic conditions

We hope that our 2022 Mid-Year Powerhouse Poll provides you with valuable insight, and a deeper look into the themes we expect to shape investor behavior in the latter half of the year. As always, please don't hesitate to reach out with any questions.

- Ernie Katai

EVP, Head of Production

Look for direct insights from our producers throughout the report.

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ABOUT THE POWERHOUSE POLL

THE 2022 MID-YEAR POWERHOUSE POLL DATA WAS COLLECTED IN AN ONLINE SURVEY, FACILITATED BY BERKADIA IN JULY 2022, TO ASSESS ANTICIPATED COMMERCIAL REAL ESTATE ACTIVITY AND OPPORTUNITIES FOR THE REMAINDER OF 2022. THE SAMPLE WAS BASED AMONG BERKADIA'S 65 OFFICES THROUGHOUT THE UNITED STATES, CONSISTING OF 51 INVESTMENT SALES ADVISORS AND 72 MORTGAGE BANKERS, TOTALING 123 OVERALL RESPONDENTS.

MULTIFAMILY DEMAND CONTINUES TO OUTWEIGH SUPPLY DESPITE MARKET CONDITIONS

Off the back of a record-setting year for multifamily investment in 2021, the first half of 2022 continued to exceed expectations with the multifamily sector experiencing an increased demand from investors despite rising interest rates and inflation. In the first half of 2022, Berkadia secured **\$19 billion in total loan origination volume** across 932 loans, completed **\$13 billion in total investment sales volume** across 346 total investment sales transactions and has a **\$337 billion servicing portfolio UPB** with 20,905 loans actively serviced.

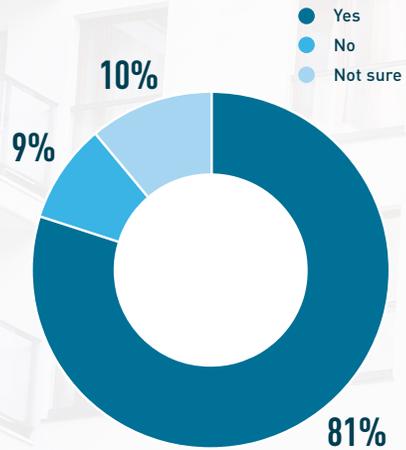
The market continues to see an increase in property supply to meet investor and rental demand. Across the U.S., we're also seeing the rate of production slow as investors grapple with higher cap rates, rising interest rates and increased construction costs.

The industry is resilient and boasts strong operating fundamentals despite continued economic uncertainty, further proven by the high and stable demand we are seeing from investors and renters alike, across key markets.

RENTAL DEMAND

Multifamily rental demand will continue to outpace supply despite market uncertainty

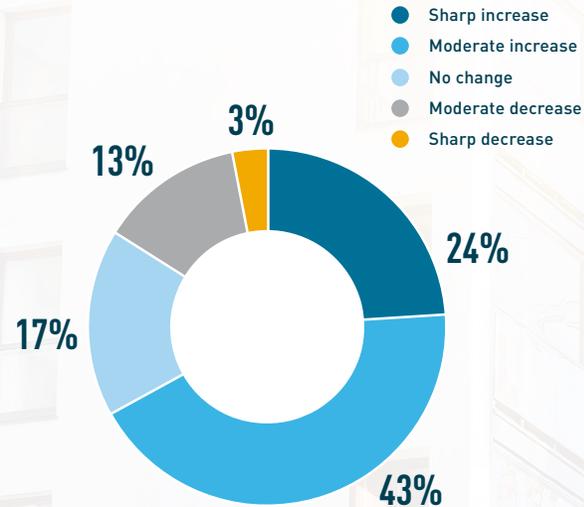
Do you expect multifamily rental demand to continue to outpace supply in 2022?



PROPERTY SUPPLY

Property supply is steadily increasing

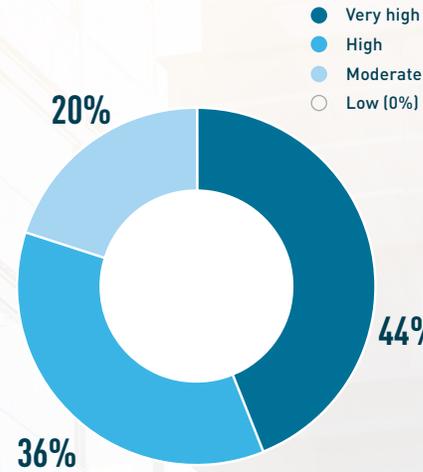
Have you seen a change in property supply in your region of the country?



MARKET UNCERTAINTY

Rising interest rates and persistent inflation will impact multifamily market

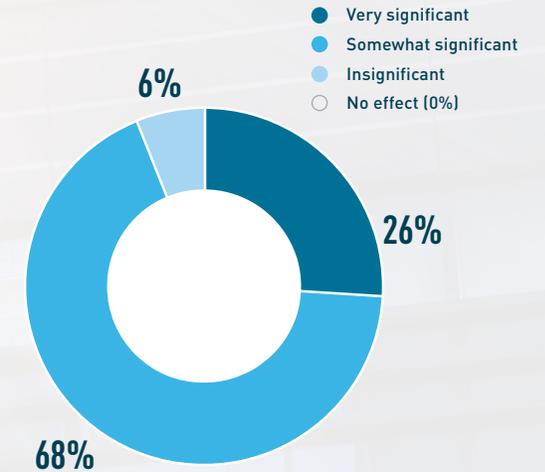
What impact have rising interest rates and inflation had on your local market?



IMPACT OF RENT INCREASES

Rent increases will impact multifamily transaction volume

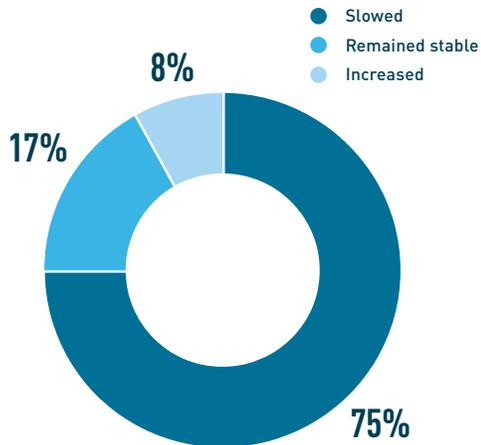
In the second half of 2022, how significant of an impact will rent increases have on multifamily transaction volume?



TRANSACTION ACTIVITY

Transaction velocity is slowing

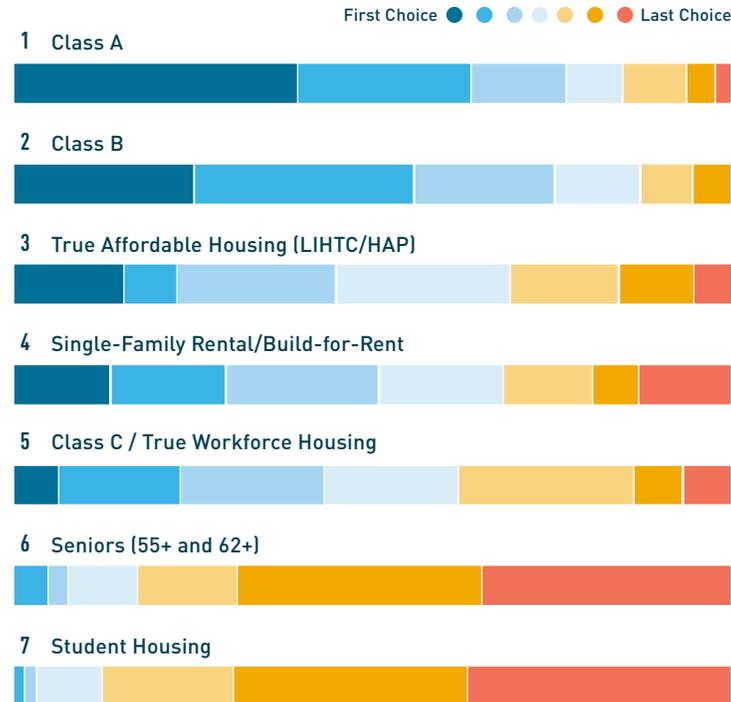
How has the rate of production changed in your region since January of 2022?



INVESTOR INTEREST

Focus remains on Class A, Class B and Single-Family Rental/Build-for-Rent housing in the months to come

Rank the following types of housing by anticipated investor interest in 2022, in order from 1 (most of-interest) to 7 (least of-interest).



“In the second half of 2021 and the first half of 2022, we saw a record-setting volume of investment activity. As we move into Q3 and Q4 of 2022, investors are grappling with higher cap rates, rising interest rates and increased construction costs, which will undoubtedly impact the rate of production.”

“Despite rising interest rates and persistent inflation, CRE will continue to exhibit resiliency and perform very well throughout the second half of 2022. The industry offers some of the best risk-adjusted returns, and although we’ve seen a slowing in transaction velocity, investor and renter demand continue to outpace supply.”

“The CRE industry continues to evolve, and we’ve seen that exemplified so far in 2022 with the rise of Single-Family Rental/Built-for-Rent (SFR/BFR) properties. Though Class A and Class B housing continue to be at the forefront of investors’ minds, it’s exciting to see SFR/BFR really take off and accumulate interest from investors.”

REGIONAL TRENDS TO WATCH

With 65 U.S. offices, our investment sales advisors and mortgage bankers provide localized experienced in every market across the country. For the first time since we launched the Powerhouse Poll in 2018, we asked our producers to share insights about the trends they're seeing in the local markets where they operate. Filtering their responses by region allowed us to pinpoint and differentiate key findings related to investor demand, property type demand and the impact of inflation and rising interest rates – specific to local markets throughout the U.S.

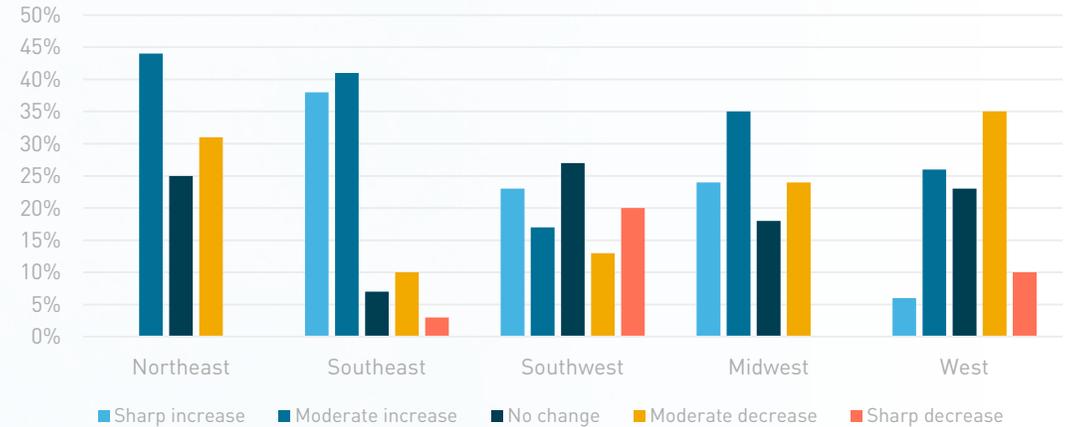
“Producers from all regions reported that their local markets have been impacted by rising interest rates and inflation. While producers from the West reported the lowest levels of impact from the current economic uncertainty—with 28% pointing to a moderate impact—68% of producers from the Midwest reported that current market conditions are having a very high impact on their regional market.”

INVESTOR INTEREST BY REGION

Changes in investor demand differ by region

Despite market uncertainty, producers in the Southeast have seen an increase in investor demand with 38% reporting a sharp increase and 41% reporting a moderate increase. In comparison, 30% of producers in the West reported a moderate decrease, and 10% reported a sharp decrease in investor demand.

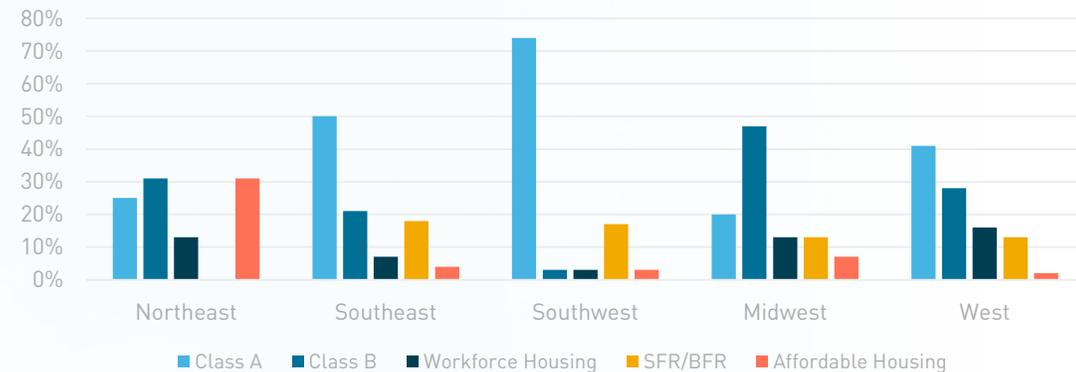
Have you seen a change in investor demand in your region of the country?



PROPERTY TYPE DEMAND BY REGION

Investor interest will be focused on Class B and Class A housing in the months to come

Rank the property types in order from highest demand to lowest, specific to your region:

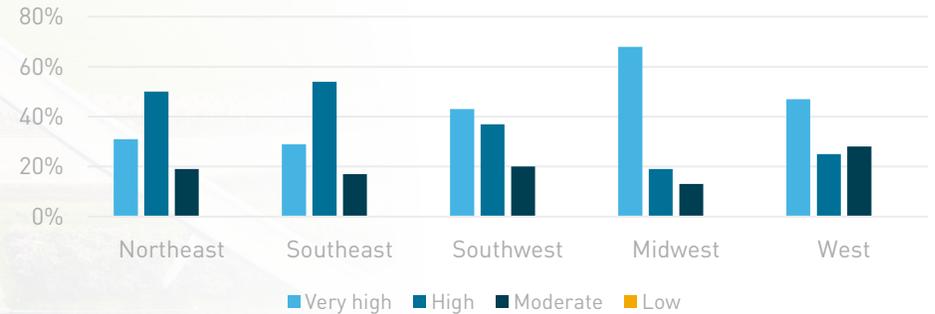


“Knowing which property types are in highest demand in specific regions throughout the country allows us to better understand the current renter landscape and cater to our clients within those markets.”

IMPACT OF RISING INTEREST RATES AND INFLATION ON LOCAL MARKETS

All regions have been highly impacted by rising interest rates and inflation, especially the Midwest

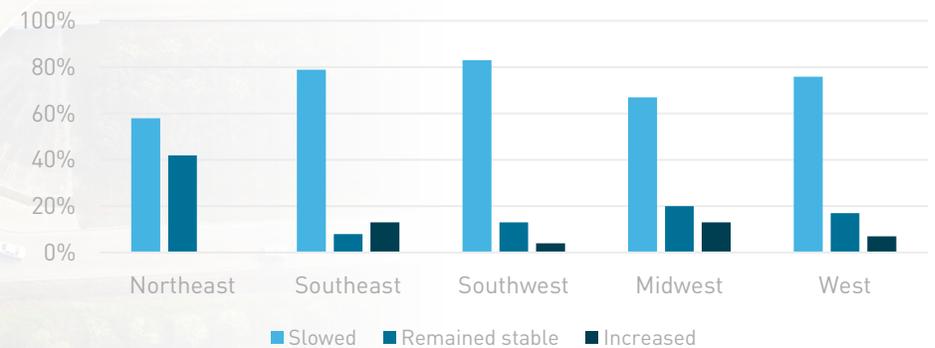
What impact have rising interest rates and inflation had on the local CRE market?



CHANGES IN TRANSACTION ACTIVITY BY REGION

Transaction velocity is slowing across all regions, especially in the Southeast, Southwest and West

How has the rate of production changed in your region since January of 2022?



TRENDS IN RENTER DEMOGRAPHICS

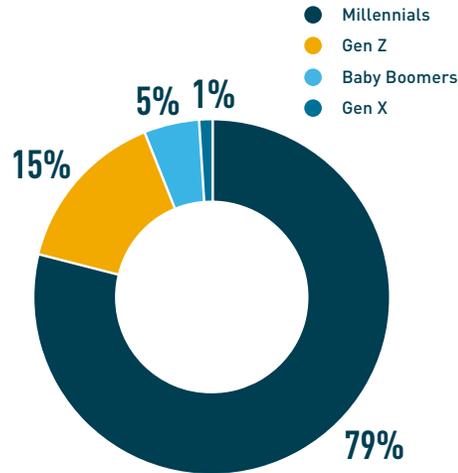
While our study has always focused on anticipated investor interests, we also wanted to dive into the wants and needs of renters today. Being able to pinpoint and anticipate renters' interests enables us to better counsel our clients on matters related to property type, location, amenities and more.

“Millennials tend to be transient renters, but they are increasingly seeking the comfort of a home. Therefore, the SFR/BFR product type resonates with them as it offers them the privacy of a home without the burden of homeownership.”

WHICH GENERATIONS ARE RENTING?

Millennials are renting at the highest rates

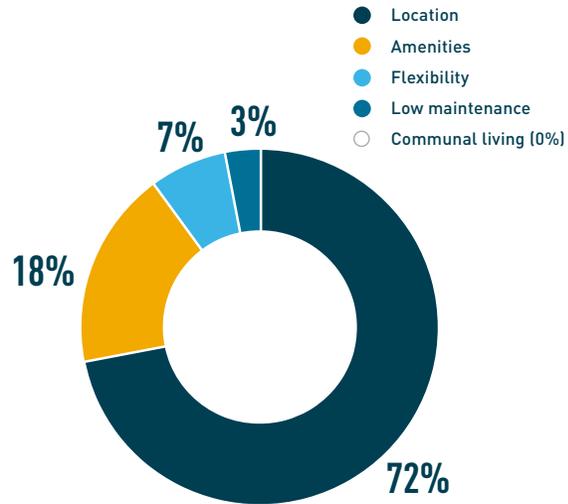
In the next one to two years, which generation do you believe will make up the highest percentage of multifamily renters?



RENTERS' PRIORITIES TODAY

Location is of paramount importance to renters

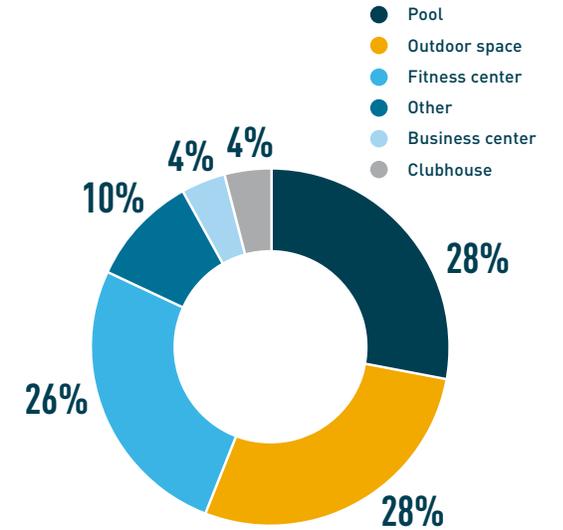
Outside of cost, what is most important to renters today?



RENTERS' PREFERENCE OF AMENITIES

A swimming pool, outdoor space and a fitness center help seal the deal for renters

What amenities are most important to renters today?



THE WHO, WHAT & WHERE OF RENTERS: GENERATIONAL TRENDS

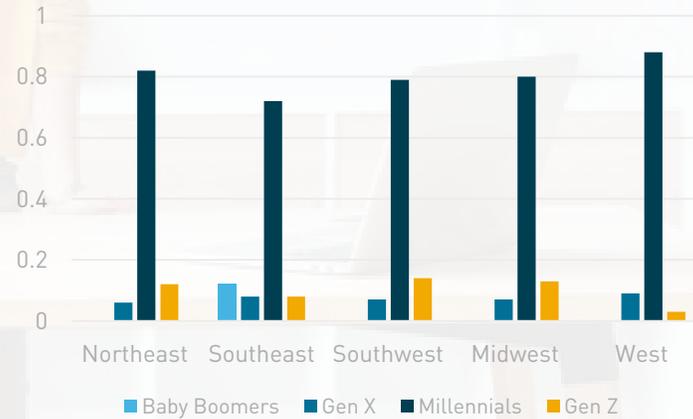
Millennials are leaning towards Class A, Class B or SFR/BFR properties

While Millennials are renting at the highest rates across regions, Baby Boomers are present in the Southeast and Gen Z has a presence in the Northeast, Southwest and Midwest

Which property types are each demographic most likely to rent?

- GEN Z**
Workforce, Class A, Class B
- MILLENNIALS**
Class A, Class B, SFR/BFR
- GEN X**
Class A, Class B
- BABY BOOMERS**
SFR/BFR and Class A

In the next 1-2 years, which generation do you believe will make up the highest percentage of multifamily renters?



“As more of Gen Z enters the workforce, we are seeing them gravitate towards Class B product and workforce housing. These property types offer renters with lower income levels a more attainable and manageable space as they begin building their careers.”

“Aside from cost, renters are most concerned with location when deciding where to live. Second to location, amenities prove to be an important factor to renters as well, with a swimming pool, outdoor space and a fitness center topping the list of amenities that are most meaningful to today’s renters.”

TECHNOLOGY ACCELERATES PRODUCTION

Industry advancements in technology are allowing the production process to be expedited. Berkadia's growing Innovation team is introducing new products that will drive transformation and growth for our clients. Our investment sales advisors and mortgage bankers leverage technology such as Pyxis and redIQ throughout the transaction process. All these capabilities allow us to access real-time market data, better assess property value, underwrite loans more efficiently and more – accelerating the production timeline.

TECHNOLOGY EXPEDITES THE PRODUCTION PROCESS

Technology such as redIQ and Pyxis help producers access market-specific data



“The technology that is available to our producers expedites the production process and enables them to access market-specific data which benefits our clients. Especially while we navigate higher interest rates and an inflationary environment, having tools at our disposal that aid in data-backed investment decisions and deal development is crucial.”

“Many industries are moving towards digital platforms and undergoing digital transformation. The CRE industry is no different and Berkadia remains at the forefront of innovation within the industry.”

OPPORTUNITIES FOR INSTITUTIONAL INVESTORS

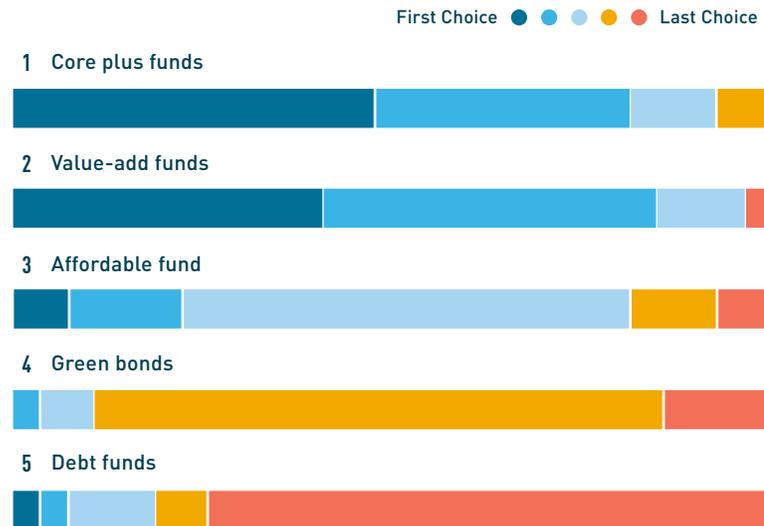
Renters moving away from major metropolitan areas and towards suburban living is one of the most prevalent trends accelerated by the COVID-19 pandemic. Though it's been over two years since the onset of the pandemic, we continue to see renters migrate away from large cities. Fifty-nine percent of Berkadia professionals reported that the renters are still moving away from major metropolitan areas, just not as rapidly as during the height of the pandemic. This shift has driven the rise of Single-Family Rental/Built-for-Rent housing and institutional investors remain a key player within the growing sector.

Institutional investors are also turning to CRE to achieve true ESG integration. Forty-four percent of our producers agree that the most common way investors are meeting ESG metrics is through investment in commercial real estate.

STRATEGIC INVESTMENTS BY INSTITUTIONAL INVESTORS

Core plus funds top institutional investor interest

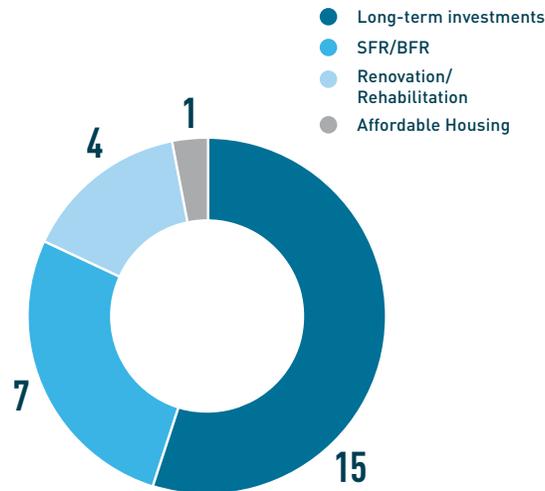
What types of strategies are institutional investors most interested in? Rank top 3.



INSTITUTIONAL INTEREST: PROPERTY TYPE

Long-term investments and SFR/BFR will be most attractive to institutional investors

What type of opportunity will be most attractive to institutional clients in the next 1-2 years?



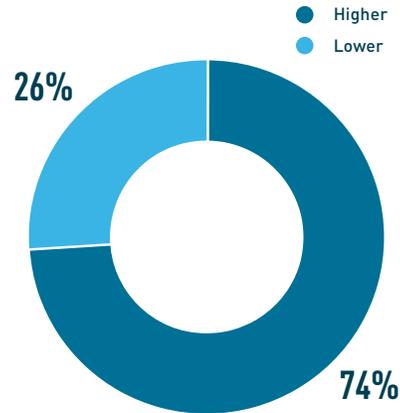
“Over the past year we’ve seen institutional investors gravitate towards long-term investments and SFR/BFR properties. With Baby Boomers downsizing and Millennials seeking the comfort of a single-family home without the burden of homeownership, demand for SFR/BFR properties has skyrocketed and institutional investors are keen to explore the growing sector.”

“To weather the ongoing inflationary environment and rising interest rates, many institutional investors have altered their strategies to seek core plus and value-add funds.

Recently, we’re seeing fewer institutional investors go after debt funds and green bonds. However, we are still seeing many investors turning to commercial real estate as a means to execute on ESG initiatives.”

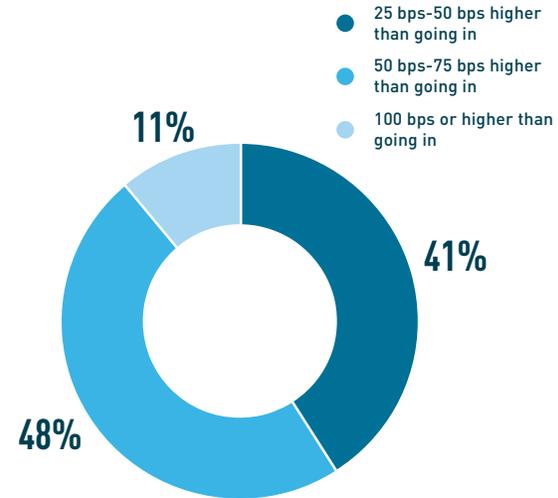
CAP RATES

Do you expect cap rates to be higher, lower or the same at the end of 2022?



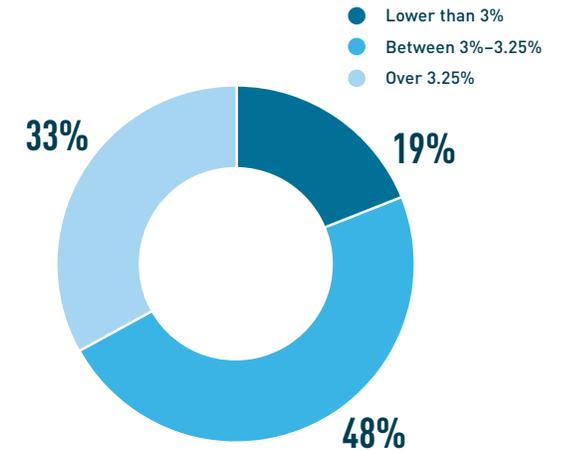
EXIT CAP RATES

How are investors underwriting exit cap rates in your region?



TREASURY YIELD

Where do you expect the 10-year treasury yield to be at year-end 2022?





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